

PENSION ANNUITY TRANSFER SCHEME

A guide for non-transferring policyholders

A guide for non-transferring policyholders on the transfer of certain pension annuities from Phoenix Life Limited, Phoenix Life Assurance Limited and National Provident Life Limited to Guardian Assurance Limited

June 2013



NPI

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We (the **Phoenix Group**) have prepared this guide to summarise our proposals to transfer approximately 320,000 pension annuities from Phoenix Life Limited, Phoenix Life Assurance Limited and National Provident Life Limited to Guardian Assurance Limited (**Guardian**). This guide is intended for holders of policies that are not transferring; we have produced a separate guide for holders of transferring policies.

We refer to these proposals as 'the **Scheme**'.

Phoenix Life Limited, Phoenix Life Assurance Limited and National Provident Life Limited are all part of the **Phoenix Group** of companies and we refer to these companies as the **Phoenix life companies**.

Within this guide you will find:

- important information about the **Scheme** and how it affects you (section 2)
- details of the process we will follow to transfer the policies to **Guardian** (section 4);
- a summary of a report produced by an **Independent Expert** that considers how your interests as a policyholder may be affected by the **Scheme** (section 5);
- details of how to contact us and raise any concerns you may have about the **Scheme** (section 6); and
- a copy of the formal notice of our application to the **High Court** for approval of the **Scheme** (Appendix 1).

Words in bold in this document are explained in section 8 - Definitions.

If the **High Court** approves the **Scheme**, we will transfer certain pension annuities from the **Phoenix life companies** to **Guardian** on the **transfer date**.

During June and July 2013, we are writing to policyholders who have a pension annuity that is affected by the **Scheme**. We will send a separate letter for each pension annuity we plan to transfer. Each letter will clearly show the policy number of the pension annuity that is affected.

If you have a pension annuity with a **Phoenix life company** and you don't receive a letter from us, then we are not transferring your pension annuity and nothing will change for you.

If you are approaching retirement and choose to take a pension annuity with one of the **Phoenix life companies**, your pension annuity will not be included in the transfer.

If you have any other policies with a **Phoenix life company**, they are not affected. The **Scheme** will not change the way these policies are managed, their terms and conditions, any guarantees that apply and any payments made. For with-profits policies there will also be no change in the way bonuses are calculated or added.

3.1 Transferring the business

If the **Scheme** goes ahead, on the **transfer date** we will transfer certain pension annuities to the **non-profit fund** of **Guardian** and the reinsurance arrangements between the **Phoenix life companies** and **Guardian** will cease. **Guardian** will become the product provider and will then be responsible for future pension annuity payments. **Guardian** will also take over all the rights and obligations relating to the transferred pension annuities and the associated personal data. Transferring policyholders will be entitled to the same rights against **Guardian** in respect of their pension annuity as they have against their current **Phoenix life company**.

Please see section 4 for more information about the reinsurance arrangements and section 7 to find out how you can obtain the full **Scheme** document and other information free of charge.

3.2 Excluded policies

If, for technical reasons, we are unable to transfer any pension annuity or group of pension annuities within six months of the **transfer date**, those pension annuities will be retained by the **Phoenix life company** they are currently with and the **Scheme** will not affect them.

3.3 Capital Policy

Guardian has its own capital policy which has been reviewed by our **Regulators**. This requires **Guardian** to hold a margin of solvency in addition to that required by legislation. The **Scheme** sets out certain protections for policyholders if the **Guardian** Board wish to amend the capital policy, these require the **Guardian** Board to:

- take account of appropriate actuarial advice;
- discuss their proposals with the **Regulators**;
- have regard to their obligation to treat policyholders fairly.

With effect from 1 July 2012, the **Phoenix life companies** reinsured the liabilities on selected pension annuities with **Guardian**. These reinsurance arrangements mean that, in exchange for paying **Guardian** an initial premium, the **Phoenix life companies** receive from **Guardian** the payments they make to the policyholders of the pension annuities. Such reinsurance arrangements are typical within the insurance industry. Entering into these arrangements reduced risks for the **Phoenix life companies** and allowed them to reduce the amount of capital they were required to hold.

At the same time as setting up the reinsurance arrangement, the **Phoenix Life companies** entered into an agreement with **Guardian** to seek to transfer the reinsured business to **Guardian** at a future date. Therefore, the **Phoenix life companies** and **Guardian** have applied to the **High Court** for permission to transfer certain pension annuities to **Guardian**.

The **High Court** will consider whether all the necessary legal requirements have been met and that the proposed changes are fair to policyholders as a whole. The **High Court** will only approve the **Scheme** if it is satisfied that it is appropriate in all the circumstances of the case to do so.

We expect the **hearing** at the **High Court** to be held on 12 September 2013. If the **High Court** approves the **Scheme**, we expect the transfer to take place on 30 September 2013 (the **transfer date**).

We have appointed an **Independent Expert**, David Hare, who is a partner at Deloitte MCS Limited, to report on how the **Scheme** is likely to affect policyholders. Mr Hare is independent of the companies involved in the **Scheme** and our **Regulators** have approved Mr Hare's appointment and have also reviewed his report. The **High Court** will consider this report when reaching its decision.

In his report, Mr Hare says that he does not consider that the **Scheme** will materially adversely affect the security of benefits for any group of policyholders and he is satisfied that all groups of policyholders in the **Phoenix life companies** and **Guardian** will experience no material change to their benefit expectations as a result of the **Scheme**. We have included a summary of this report in section 5 of this guide. If the **Scheme** does not go ahead, we expect the reinsurance arrangements to remain in place, therefore Mr Hare does not consider the impact of the **Scheme** within a scenario where the reinsurance does not exist.

In addition we have consulted directly with our **Regulators**; they have reviewed the **Scheme** and it will not be approved if they have any objections.

A small number of the pension annuities that we are proposing to transfer are held by policyholders who are resident in the Isle of Man. If the **Scheme** is approved by the **High Court** it will apply to this group of Isle of Man policies, and they will transfer to **Guardian**.

The following is a summary of the report written by the **Independent Expert**.

Shortly before the final **hearing**, the **Independent Expert** will issue a supplementary report in which he will consider any developments since his first report that might affect policyholders, including updated financial information. You will be able to find this on our websites www.phoenixlife.co.uk/FM13scheme and www.npi.co.uk/FM13scheme, under 'Technical information'.

Report Summary

Main considerations

The purpose of my report is to assist the **High Court** in deciding whether to sanction the **Scheme**.

As **Independent Expert**, I have considered the effect that the **Scheme** will have on different groups of policyholders of the **Phoenix life companies** and **Guardian**, and in particular whether or not there are likely to be any material adverse effects for transferring policyholders of the **Phoenix life companies**, non-transferring policyholders of the **Phoenix life companies** or existing policyholders of **Guardian**. I have examined the implications of the **Scheme** for each group and have reviewed in particular the likely impact on:

- The security of policyholder benefits.
- The reasonable benefit expectations of policyholders.
- Service standards and investment management.

Under the current arrangements, while the majority of the risk exposures of transferring policies of the **Phoenix life companies** arise in **Guardian**, the policyholders concerned continue to hold policies with the relevant **Phoenix life company** and depend on the latter for their benefit security. The **Scheme** will change this and result in all of the policies becoming policies with **Guardian** and the policyholders concerned relying on **Guardian** for their benefit security and the meeting of their benefit expectations rather than the relevant **Phoenix life company**.

Security of policyholder benefits

I am satisfied that, on implementation of the **Scheme**, all groups of policyholders should benefit from solvency coverage that is targeted to be maintained at a level well in excess of that required by UK regulations. So long as that continues to be the case, I do not consider that the **Scheme** will materially adversely affect the security of benefits for any group of policyholders.

In the case of transferring policyholders of the **Phoenix life companies**, this is because:

- **Guardian** has a capital policy which operates in a similar manner to the capital policies of the **Phoenix life companies**, with a series of tests setting out a target margin of surplus assets in excess of minimum regulatory capital requirements. While the level of assets in excess of these requirements which are targeted is different for each of the companies, I do not consider that moving to the current **Guardian** capital policy will have a materially adverse impact on the security of policyholder benefits for any of the transferring policies. I also consider that the governance provisions relating to changes in the **Guardian** capital policy set out in the **Scheme** provide an element of protection against changes to the **Guardian** capital policy that could have a material adverse impact on policyholder benefit security.
- The investment restrictions that are currently in place for the assets backing the transferring policies will no longer apply after the **transfer date**. Instead, following the **transfer date**, the investment mandate and decisions will be determined by **Guardian**, which might involve investment in amounts or types of assets which are different from those provided under the current arrangements for the transferring policies. This will have no material effect on the security of policyholder benefits provided the capital policy is adhered to.

In the case of the non-transferring policyholders of the **Phoenix life companies**, this is because:

- The transferring business is already reassured to **Guardian**. This means that the main financial effect of the **Scheme** for the **Phoenix life companies** will be to remove counterparty and residual expense risks, and that the **Scheme** is therefore expected to have a small positive impact on the financial strength of the **Phoenix life companies**. There will also be no changes to the capital policies of any of the **Phoenix life companies** as a result of the **Scheme**.

In the case of the existing policyholders of **Guardian**, this is because:

- The **Scheme** will have little impact on the financial strength of **Guardian** as the majority of the risks associated with the transferring policies have already passed to the **Guardian non-profit fund** under existing reinsurance arrangements and are therefore reflected within **Guardian's** regulatory capital requirements.

- The **Scheme** will also have no material impact on the solvency position, either immediately after the **transfer date** or on the expected position in the future, of **Guardian's** with-profits fund.
- The **Guardian** capital policy will not change as a result of the **Scheme**, except insofar as the **Scheme** will introduce additional governance requirements in respect of any proposed future changes to the capital policy.

Policyholders' benefit expectations

I am satisfied that all groups of policyholders in the **Phoenix life companies** and **Guardian** will experience no material change to their benefit expectations as a result of the **Scheme**.

In the case of transferring policyholders of the **Phoenix life companies**, this is because:

- There is no discretion involved in calculating the benefits payable under the transferring policies, which are all non-profit annuities in payment, and the **Scheme** will not result in any changes to the terms and conditions of these policies.

In the case of the non-transferring policyholders of the **Phoenix life companies**, this is because:

- The **Scheme** does not alter the terms and conditions of any of the non-transferring policies in the **Phoenix life companies**.
- The policies transferring from Phoenix Life Limited and Phoenix Life Assurance Limited are coming from **non-profit funds** and the **Scheme** will have no impact on the with-profits funds of those companies. Thus, of itself, the **Scheme** will not result in any material changes to the operation of any discretion that influences policyholder pay-outs in these two companies.
- The policies transferring from National Provident Life Limited are transferring from its sole long-term insurance fund, which contains both non-profit and with-profits business. However, the **Scheme** will not change the way in which National Provident Life Limited's with-profits business is managed. Further, the majority of the liabilities under the transferring policies have already been reassured and so the **Scheme** will not result in a material change to the financial position of National Provident Life Limited's long-term insurance fund. This means that, of itself, the **Scheme** is expected to make no material changes to the operation of any discretion that might influence policyholder pay-outs in National Provident Life Limited.

- The **Scheme** will remove expense risk and counterparty risk from the **Phoenix life companies**. This means that, so long as the amount of any assets that are transferred in respect of these risks is reasonable (and I have no reason to believe it will not be), the **Scheme** may be of a slight benefit to the **Phoenix life companies**.

In the case of the existing policyholders of **Guardian**, this is because:

- The **Scheme** does not alter the terms and conditions of any **Guardian** policies and will also not affect the way existing **Guardian** policies are managed. As a result, I am satisfied that there is not likely to be a material change in the way any discretion (such as in the calculation of surrender values for with-profits policies) is exercised in relation to any **Guardian** policies.

Service standards and investment management

I am satisfied that the **Scheme** will have no materially adverse impact on the administration or the investment management for any policies of the **Phoenix life companies** or **Guardian**. This is because:

- No change is expected relating to the administration of the existing **Guardian** policies as a result of the **Scheme** and I am satisfied that there is not likely to be a materially adverse impact on the standards for these policies as a result of the **Scheme**.
- Outsourcing arrangements are in place covering the service and administration of non-transferring policies of the **Phoenix life companies** and these are not changing as a result of the **Scheme**.
- The key consideration for the transferring policies of the **Phoenix life companies** is continuity of payments under their policies, which is dependent on the administration arrangements that will operate post **Scheme**. Assuming these are in line with what is currently expected to be put in place by **Guardian**, I am satisfied that the **Scheme** will not have a materially adverse impact on the service standards provided to the transferring policyholders. I will review my conclusion in my supplementary report when the administration details are finalised.
- I do not consider that service standards for the transferring policyholders are directly impacted by the investment management decisions. In particular, unlike unit-linked business for example, there is no investment choice for the policyholders and the transferring policyholders do not directly bear any of the risk associated with the choice of

investments or the cost of investment expenses. Consequently, I am satisfied that any changes in the investment mandate will not have a materially adverse effect on the service levels that policyholders will receive.

Internal Guardian Part VII Scheme

Guardian propose to transfer the business held in their subsidiary companies to the **non-profit fund of Guardian** under a separate internal scheme. It is intended that the internal **Guardian** scheme will take place at the same time as the **Scheme**, although neither is contingent on the implementation of the other. I have considered whether the impact of the **Scheme** is likely to be materially different if the internal **Guardian** scheme does or does not go ahead and I am satisfied that the impact of the **Scheme** does not depend on whether the internal **Guardian** scheme is implemented at the same time.

Summary

I do not consider that the **Scheme** will materially adversely affect the security of benefits for any group of policyholders and I am satisfied that all groups of policyholders in the **Phoenix life companies** and **Guardian** will experience no material change to their benefit expectations as a result of the **Scheme**. I am also satisfied that the **Scheme** is not likely to lead to a materially adverse impact for policyholders, with regard to service standards and investment management.

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What you should do next

Please read this guide to make sure you understand our proposals.

If you have any questions or concerns, you can see the full **Scheme** document and other relevant documents, including the **Independent Expert's** full report, on our websites at www.phoenixlife.co.uk/FM13scheme and www.npi.co.uk/FM13scheme.

If you would like a paper copy of any of these documents, or if you need more help after reading this guide, please write to us at the address below, call our helpline 0845 600 1479 or use our website enquiry form.

Phoenix Life / NPI
Restructure Team (reference FM13)
Lynch Wood Park
Lynch Wood
Peterborough
PE2 6FY

Alternatively, you may wish to speak to an authorised financial adviser about the transfer. If you do not already have a financial adviser, you can find details of the advisers in your area at www.unbiased.co.uk. Please note that financial advisers may charge you for providing advice.

If you are happy with our proposals, you do not need to do anything. If you believe you would be adversely affected by the **Scheme**, you can put your objections

to the **High Court** in the following ways.

- You can call our helpline, use the enquiry form on our websites, or write to us. We will reply to you and send your objection and our reply to the **High Court**, the **Independent Expert** and our **Regulators** before the **hearing** at the **High Court**.
- You can go to the **High Court hearing** and present your objection in person. If the **High Court** agrees, a representative can present your objection on your behalf. Your representative does not need legal training and could be a friend or relative.

If you wish to object or plan to go to the **High Court hearing**, please get in touch with us as soon as possible and preferably before 5 September 2013. If you want to object at the **hearing**, please explain your objection to us so we can send it to the **High Court**, the **Independent Expert** and our **Regulators** before the **hearing**. By informing us, you will also allow us to tell you about any changes that may be made in relation to the **hearing**, for example a change of time or date. We may also be able to deal directly with any concerns you have.

If you do write to us, please quote the reference FM13 and your policy number. This can be found on your policy documents or annual statement.

As well as this guide, the documents listed below relating to the **Scheme** are available on our websites at www.phoenixlife.co.uk/FM13scheme or www.npi.co.uk/FM13scheme.

Scheme mailing pack for transferring policyholders	<ul style="list-style-type: none"> • 'Pension annuity transfer scheme – Policyholder guide' • 'Pension annuity transfer scheme – Your questions answered' • Example policyholder letters
Other information	<ul style="list-style-type: none"> • The full Scheme document • The Independent Expert's full report for the Scheme • Reports by the Actuaries of the Phoenix life companies on the impact of the Scheme

If you have any more questions, or would like paper copies of any of the documents listed above, please call our helpline on 0845 600 1479.

The helpline is open from 9am to 5pm, Monday to Friday, up until the day before the **High Court hearing**. Low call rates apply, although costs can vary between telecom providers. If you are calling from outside the UK, please call +44 1733 478 990. Our contact centre staff will endeavour to answer your questions directly, and all queries will be responded to.

This helpline is only for enquiries about the **Scheme**. If you have any general questions about your policy, please contact us on the normal customer number which you will find on previous letters we have sent you.

You may also write to us at the address provided in section 6 – What you should do next. If you do write to us, it would help if you could please quote reference FM13 and your policy number. This can be found on your policy documents or annual statement.

You can also see a copy of the **Independent Expert's** full report for the **Scheme** at our solicitors' offices at the addresses shown in Appendix 1.

Guardian – Guardian Assurance Limited, the company to which we are proposing to transfer the pension annuity business detailed in section 2 of this guide. For more information about **Guardian**, visit their website on www.guardianfs.co.uk.

Hearing – the hearing at the **High Court** to approve the **Scheme**, which we expect to be held on 12 September 2013.

High Court – the High Court of Justice of England and Wales, Rolls Building, Fetter Lane, London EC4A 1NL.

Independent Expert – David Hare of Deloitte MCS Limited, an actuary experienced in the issues relating to long-term insurance businesses, who has been appointed by the **Phoenix life companies** and **Guardian**, and approved by our **Regulators**, as the **Independent Expert** in connection with the **Scheme**. He has prepared a report on the effect of the **Scheme** on policyholders.

Non-profit fund – a fund from which all the profits are distributable to shareholders, as compared to a with-profits fund where the profits are distributable entirely to eligible policyholders or shared between the shareholders and the policyholders. The benefits of non-profit policies are normally set at outset and stated in the terms and conditions of the policy, or linked to a specified index or value of specified investment fund units.

Phoenix Group – the group of companies (formerly Pearl Group) whose ultimate parent company is Phoenix Group Holdings and which currently includes Phoenix Life Limited, Phoenix Life Assurance Limited, and National Provident Life Limited.

Phoenix life company / companies – Phoenix Life Limited, Phoenix Life Assurance Limited and National Provident Life Limited.

Regulators – our industry regulators, the Financial Conduct Authority and the Prudential Regulation Authority. In April 2013, the Financial Conduct Authority and the Prudential Regulation Authority took over all of the responsibilities of the Financial Services Authority.

Scheme – the formal process by which the pension annuities detailed in section 2 of this guide will transfer to **Guardian**. The **Scheme** sets out the terms under which **Guardian** will be responsible for those transferring pension annuities which are currently the responsibility of the **Phoenix life companies**.

Transfer date – 30 September 2013 or any later date that the **Phoenix life companies** and **Guardian** agree. This is the date when the selected pension annuities will transfer from the **Phoenix life companies** to **Guardian** under the **Scheme**.

APPENDIX 1

Legal notice
IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

NO: 3199 OF 2013

IN THE MATTER OF NATIONAL PROVIDENT LIFE LIMITED

- and -

IN THE MATTER OF PHOENIX LIFE ASSURANCE LIMITED

- and -

IN THE MATTER OF PHOENIX LIFE LIMITED

- and -

IN THE MATTER OF GUARDIAN ASSURANCE LIMITED

- and -

IN THE MATTER OF THE FINANCIAL SERVICES AND MARKETS ACT 2000

NOTICE IS HEREBY GIVEN that on 30 April 2013 National Provident Life Limited, Phoenix Life Assurance Limited and Phoenix Life Limited (together, the "**Phoenix Companies**") and Guardian Assurance Limited ("**Guardian**") applied to the High Court of Justice of England and Wales, pursuant to section 107(1) of the Financial Services and Markets Act 2000 (the "**Act**"), for an Order under section 111 of the Act sanctioning a scheme (the "**Scheme**") for the transfer to Guardian of certain annuity policies of the Phoenix Companies (the "**Business**") and for the making of ancillary provisions in connection with the implementation of the Scheme under sections 112 and 112A of the Act.

The proposed transfer will result in the Business which is currently carried on by the Phoenix Companies being carried on by Guardian. All annuity payments in respect of the policies comprised within the Business shall, upon the transfer becoming effective, be dealt with by Guardian.

Copies of the report on the terms of the Scheme prepared by an Independent Expert in accordance with section 109 of the Act (the "**Independent Expert's Report**"), Scheme guides (which contain a statement setting out the terms of the Scheme and a summary of the Independent Expert's Report), and copies of the Scheme document itself can be obtained free of charge by contacting the Phoenix Companies or Guardian using the telephone number or address set out below. These and other documents relating to the Scheme (including actuarial reports and sample copies of the communications to policyholders) are also available on the websites of the Phoenix Companies and Guardian at www.npi.co.uk/FM13scheme, www.phoenixlife.co.uk/FM13scheme and www.guardianfs.co.uk/partviitransfers.

Any questions or concerns relating to the proposed transfer should be referred to the Phoenix Companies or Guardian using the following telephone number or address:

Restructure Team (reference FM13)
Lynch Wood Park
Lynch Wood
Peterborough
PE2 6FY
Phoenix tel: 0845 600 1479
Phoenix overseas tel: +44 1733 478 990

Guardian
(reference PviiGA13)
FREEPOST GFS3
Guardian tel: 0800 3161974
Guardian overseas tel: +44 1253 708 726

If you have a policy with the Phoenix Companies or Guardian, please quote your policy number in any correspondence. This can be found on your policy documents.

The application is due to be heard before the Companies Court Judge at the Rolls Building, Fetter Lane, London, EC4A 1NL on 12 September 2013 and any person (including any policyholder or employee of the Phoenix Companies or Guardian) who thinks that he or she would be adversely affected by the carrying out of the Scheme may attend the hearing in person or by Counsel. Any person intending to attend is requested to give notice of such intention as soon as possible and preferably before 5 September 2013, setting out their grounds of objection, either to the Phoenix Companies or Guardian by calling the above number or in writing to the address above or to the solicitors named below.

Any person who objects to the Scheme but does not intend to attend the hearing may also make representations about the Scheme by giving notice of such representations, as soon as possible and preferably before 5 September 2013, either to the Phoenix Companies or Guardian by calling the above number or in writing to the address above or to the solicitors named below.

Hogan Lovells International LLP
Atlantic House
Holborn Viaduct
London EC1A 2FG
Ref: C1CSR

Solicitors to the Phoenix Companies

Allen & Overy LLP
One Bishops Square
London E1 6AD

Ref: 0104606/0000001

Solicitors to Guardian

ANY QUESTIONS ABOUT THE SCHEME?

If you have any questions, please call our helpline on.

0845 600 1479

Lines are open Monday to Friday, 9am to 5pm.

Low call rates apply, although costs can vary between telecom providers.

We may monitor or record calls.

Or you can write to us at

Phoenix Life / NPI
Restructure Team (reference FM13)
Lynch Wood Park
Lynch Wood
Peterborough
PE2 6FY

You can also visit our websites

www.phoenixlife.co.uk/FM13scheme

www.npi.co.uk/FM13scheme

**If you would like this information in large print, in Braille,
or on audio tape or CD, please call us on 0845 600 1479**

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